



Ministry
of
Revenue

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Retail Sales Tax Branch

Information Bulletin

Retail Sales Tax Act

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This bulletin clarifies the tax treatment of research and development equipment and certain computer software and provides information concerning the administration of other areas of the legislation.

The details presented in this bulletin are intended only as a guideline. For specific application you should refer to the Retail Sales Tax Act and Regulations. Printed copies of the revised Regulations are now available.

If you require copies of the Act or Regulations or further information on any of the topics discussed in this bulletin, please contact your local Retail Sales Tax Office listed on the back page.

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RESEARCH AND DEVELOPMENT BY MANUFACTURERS

Manufacturers who concentrate their research and development activities in a division or department of the manufacturing company may claim exemptions for machinery, equipment and materials used in these operations.

For the purpose of this exemption:

- Research* means the original or further investigation *by a manufacturer* to gain new knowledge or new ideas leading to the development of new or improved products or processes for own use or for the use of others.
- Development* is the application of any research findings *by a manufacturer* for the creation of new or improved products or processes.

To qualify for this exemption, the machinery or equipment must be used by the manufacturer directly in and exclusively for research and development *and* be described in Part XIII of Schedule III of the Excise Tax Act (Canada). The exemption also applies to machinery or equipment on which research and development may be performed.

Materials used in the development of a prototype, that becomes research and development equipment, or equipment on which research and development is performed, may be purchased exempt from tax by a manufacturer.

Non-manufacturing companies, including subsidiaries of manufacturers whose sole function is research and development, do not qualify for the above exemptions. As an "administrative concession," however, these companies may claim a refund of tax paid on materials that are incorporated into any prototype that is subsequently sold.



TRANSIENT ACCOMMODATION — TEMPORARY REFUND PROGRAM FOR VISITORS EXTENDED FOR ONE YEAR

To promote tourism in Ontario, a temporary refund program was introduced on May 16, 1984 to provide out-of-province visitors a refund of the Ontario sales tax paid by them on transient accommodation.

This program, originally scheduled to expire on December 31, 1984, has been extended to December 31, 1985.

Tax will be refunded for the billing day *commencing* at any time on May 15, 1984 to and including the billing day *ending* on January 1, 1986. Tax paid for the billing day *commencing* on January 1, 1986 will not be refundable.

Additional information concerning the program is published in Ontario Sales Tax Guide No. 704, "Transient Accommodation — Temporary Refund Program for Visitors," available at your local Retail Sales Tax Office.



TAXATION OF COMPUTER SOFTWARE — CLARIFICATION

There is some confusion with respect to the tax treatment of computer software. This bulletin clarifies the tax policy that should be followed by vendors and purchasers of software.

Vendors who are not already following this policy must make the necessary adjustments by April 1, 1985.

The supply of software, known in the industry as "canned" or "off-the-shelf" software, on disks, tapes or other media supplied *by the vendor*, including the related manuals or instructions, is a sale of tangible personal property. The total charge for such software is subject to retail sales tax at the rate of 7% regardless of any product licensing agreement entered into by the manufacturer with a purchaser.

The transfer of "canned" software to disk, tape or other media supplied *by the purchaser*, is the provision of a non-taxable service. The transfer may be made by the vendor, either directly or by wire transfer, or by the purchaser, who returns the carrying media to the vendor. Tax does not apply to the software charge, but the vendor is liable for tax on the fair value of the software used to provide the service.

The sale of custom software, specifically designed and developed for the exclusive use and special requirements of a customer, is the provision of a non-taxable service. The vendor is liable for tax on the materials and equipment used to provide such service.



PURCHASE EXEMPTION CERTIFICATE

Purchaser's Responsibilities

When you purchase goods or taxable services for resale or when you are entitled to purchase them exempt from retail sales tax for your own use, you may claim the exemption by giving your supplier a properly completed purchase exemption certificate.

The certificate, however, is not required if any of the following conditions exist:

- the goods, such as food products, books, newspapers, etc., are unconditionally exempt to any purchaser
- the goods are shipped directly out-of-province by your supplier
- you hold a "G" permit and the permit number, ending with a letter "G", is shown on your purchase order

You may use the standard purchase exemption certificate form available at Retail Sales Tax Offices. Alternatively, if you use purchase orders, an approved short-form purchase exemption certificate may be written, printed or applied with a rubber stamp directly to each purchase order. The purchase orders must be signed by an authorized official.

The certificate must not be used to claim exemption on goods and services that are obviously taxable. If you make a false statement on the certificate, or misuse the certificate, you may be liable, upon conviction by the court, to a fine, imprisonment or both.

Supplier's Responsibilities

You must charge retail sales tax on goods and taxable services unless any of the following conditions exist:

- your customer issues a purchase exemption certificate
- your customer holds a "G" permit
- the goods or services are unconditionally exempt to any purchaser
- you ship the goods directly to an out-of-province customer

A customer cannot claim an exemption by quoting only his vendor permit number, unless it is a "G" permit as mentioned above.

You must keep all exemption certificates received from customers to support the exempt sales made to these customers. Purchase exemption certificates are an area that Ministry audit staff review at the time of an audit. If you do not comply with the correct purchase exemption certificate requirements, you may be assessed for any tax liability that exists.

Further information on this subject is provided in Ontario Sales Tax Guide No. 104, "Purchase Exemption Certificates," available at your local Retail Sales Tax Office.



VENDOR RESPONSIBILITIES — TAX COLLECTION AND REMITTANCE

Do you feel that it's a nuisance at times to have to file a retail sales tax return?

Of course! But if you submit a return and tax payment, to reach us on or before the return due date shown on the return card, you avoid penalty and interest charges as well as loss of compensation.

It is important to know that tax is collectable at the time of sale. Line 2 of your return must show all the retail sales tax collectable for the period covered by the return. You must remit all the taxes due even if you have extended credit to your customers and have not yet received payment from them.

Line 3 of your return should show the retail sales tax payable on taxable items for *personal or business* use including:

- goods from your exempt inventory
- goods manufactured by you.
- goods imported
- goods purchased tax-exempt in error

Compensation is available on tax collectable when you file your return on time. No compensation is allowed on line 3 tax. If line 2 tax is:

\$16.00 or less — deduct the whole amount
\$16.01 to \$400 — deduct \$16.00
\$400 or more — deduct 4%.

You may deduct no more than \$1,000 in a fiscal year (April to March).

The tax amount on line 10 is to be remitted with the return.

Making A Remittance

There are several ways to make your retail sales tax payments.

You may mail the payment with the lower part of the return to the Ministry, in the envelope provided. Mail a few days before the due date so that it will arrive on time. The payment should be in the form of a cheque or money order made out to the Treasurer of Ontario, in Canadian funds. Do not send cash or stamps.

You may pay at your chartered bank in Ontario, on or before the due date. Give the teller your completed return and payment; the top portion will be stamped and returned to you for your records. There is no charge for this service, referred to by us as "Tax Banking."

You may bring your return and payment to a Retail Sales Tax Office. The payment may be made by cash, cheque or money order.

If your return and/or payment are received after the due date a penalty is applied and there is no entitlement to compensation.

No Payment: you are required to complete each return you receive. Your return is still required even if you had "Nil" tax to remit or "Nil" sales to report for the period. Your bank cannot accept returns when not accompanied by a remittance. "Nil" returns should always be mailed or delivered to us by the due date.

Remember tax collected on sales is held in trust for the Treasurer of Ontario. It must not be "borrowed" or "diverted" to finance your business or for your personal use.

Further information is provided in Retail Sales Tax Guides No. 101, "How to Complete Your Tax Return", and No. 103, "Vendor Responsibilities". These guides are available at your local Retail Sales Tax Office.



FARMERS' BOOKLET

"Information for Farmers" is the first in a series of booklets designed to include all sales tax information pertaining to a specific type of business. This booklet will be of particular interest to farmers and those selling to farmers.

To obtain your copy of "Information for Farmers", contact your local Retail Sales Tax Office or complete the following request form and mail it to:

Ministry of Revenue
Retail Sales Tax Branch (Dept. FB)
33 King Street West
Oshawa, Ontario
L1H 8H5



Please send me a copy of the
"Information for Farmers" Booklet

My business is Farming ☐ Wholesale ☐
 Retailing ☐ Other ☐

PLEASE USE BLOCK LETTERS

NAME _____

ADDRESS _____

CITY _____

POSTAL CODE _____

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VOLUNTARY DISCLOSURE

Voluntary compliance with Ontario tax laws and grants programs by corporations and individuals is a major factor contributing to the efficient administration of the statutes for which the Ministry of Revenue is responsible. The Ministry has acknowledged the importance of voluntary disclosure by formally adopting a policy of not prosecuting individuals or corporations who *voluntarily* approach the Ministry to correct deficiencies in their past reporting or dealings with the Ministry.

The Ministry's policy statement on voluntary disclosure and the conditions for the application of this policy are included in the Ministry's Tax Information Bulletin dated October, 1984.

To make a voluntary disclosure on retail sales tax matters, contact your local Retail Sales Tax Office.



VEHICLES FOR PHYSICALLY HANDICAPPED — TAX REFUNDS — TIME LIMITATION

Subject to certain conditions, tax paid on a vehicle purchased for the transportation of physically handicapped persons may be refunded. These conditions are outlined in Ontario Sales Tax Guide No. 118, "Vehicle Tax Refunds for the Physically Handicapped", available at your local Retail Sales Tax Office.

It should be noted that the application for a refund must be made within three years from the date of paying the tax.

FOR FURTHER INFORMATION CONSULT THE RETAIL SALES TAX OFFICE IN YOUR AREA,
AS LISTED BELOW.

BELLEVILLE K8N 1E3	208 Dundas Street East 962-9108 Zenith 37100	NORTH BAY P1B 2H3	1500 Fisher Street Northgate Plaza 474-4900 Toll Free: 1-800-461-1564 1-800-461-1671	SUDBURY P3E 5P9	Ontario Government Bldg. 199 Larch St. 675-4351 Toll Free: 1-800-461-1564 1-800-461-1671
HAMILTON L8N 3Z9	119 King Street West P.O. Box 2112 521-7504 Toll Free: (519, 416) Area: 1-800-263-9229 Toll Free: (416) Area: 1-800-263-9238	ORILLIA L3V 6K5	19 Front Street North P.O. Box 670 325-9587 Zenith 37100	THUNDER BAY P7C 5G6	Ontario Government Bldg. 435 James Street South P.O. Box 5000 475-1681 Toll Free: 1-800-465-5025
KITCHENER N2M 1N2	449 Belmont Ave. W. 576-8400 Toll Free (519) Area: 1-800-265-8700 Toll Free (705) (416) Areas: 1-800-265-2303	OSHAWA L1H 8K1	33 King Street West P.O. Box 629 433-6240 Zenith 37100	TORONTO M4P 1H6	2300 Yonge St. 10th Floor 487-1361
LONDON N6C 4P4	310 Wellington Rd. S. 433-3901 Toll Free: 1-800-265-1540	OTTAWA K1H 8K7	1355 Bank Street 523-9760 Zenith 71400	WELLAND L3B 3Z7	76 Division Street 732-1318/9 Toll Free: 1-800-263-9238
		PEEL L4Z 1H8	2 Robert Speck Parkway Suite 350 Mississauga 273-9490 Toll Free: 1-800-268-2968	WINDSOR N9A 6V9	250 Windsor Ave. 252-4404 Toll Free: 1-800-265-1540

Pour obtenir cette publication en français, veuillez communiquer avec votre bureau régional de la Taxe de vente au détail.